

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Application for Waiver
USPS Marketing Mail Carrier Route Flats

Docket No. RM2022-12

COMMENTS OF THE ASSOCIATION FOR POSTAL COMMERCE
(August 16, 2022)

Pursuant to Order No. 6244, the Association for Postal Commerce (“PostCom”) submits these comments regarding the Postal Service’s application for a waiver of the Commission’s workshare passthrough requirement.

Pursuant to 39 C.F.R. § 3030.286, the United States Postal Service has requested that, pending Governor approval of an upcoming Market Dominant rate increase, the Commission waive the applicability of 39 C.F.R. § 3030.283 to the workshare discount for Marketing Mail Carrier Route Flats dropshipped at the Destination Delivery Unit (DDU). On numerous occasions, PostCom has argued that a too-rigid adherence to the 100 percent limitation on workshare passthroughs may impede efficiency and undermine rate stability. In its request, the Postal Service has identified an instance where strict compliance with Commission rules could result in irrational rate design for Marketing Mail Flats. PostCom does not oppose the granting of a waiver, but it believes that the conditions leading to the Postal Service’s request raise issues that the Commission ought to address.

1. The Need for a Waiver Indicates Flaws in the Current System

The current approach to regulating workshare passthroughs, wherein the Commission reviews estimated passthroughs at the rate level, elevates technical compliance and may undermine more important objectives—namely rate predictability and stability. The example

cited in the Postal Service’s waiver request highlights some of the weaknesses of this approach. Rate levels, being the lowest available level of aggregation for cost and revenue data, will generally exhibit the greatest amount of volatility. In the instant case, divergence in physical characteristics between rate levels appears to be the proximate cause of the irrational prices the Postal Service is seeking to avoid. Were the Commission to examine workshare compliance at a higher level of aggregation, it could lessen the probability of anomalous outcomes and facilitate greater rate stability.

The confused definition of “product” in the current system may be contributing to the Postal Service’s dilemma in this case. As noted in the Postal Service’s request, Marketing Mail flats entered at the DDU exhibit markedly different physical characteristics than flats entered at other presort tiers.

Moreover, mail entered closer to destination generally receives better service. The Postal Service’s filing does not include information about mailer use cases for the different rate levels within the product, but it is possible that mailers entering Marketing Mail flats at DDUs have different needs. The current top-down, cost-avoidance based approach to workshare compliance, by treating all Marketing Mail flats as a single product, may be producing inefficient price signals by binding rates of customers who are using Marketing Mail flats for disparate purposes. Properly defining products such that the effects on demand of product attributes can be distinguished from the price signals sent to encourage efficient preparation and entry could limit the need for waivers such as this one in the future.

2. The Waiver Request Is Too Narrow

The Postal Service acknowledges that it is considering broader changes to the pricing of Marketing Mail flats that may render similar waivers unnecessary in the future. Request at 9.

PostCom believes that the Commission should require the Postal Service to explain what those changes will be. In addition to any changes that the Postal Service may be considering *vis a vis* Marketing Mail rates, there are other significant developments that will affect Market Dominant products.

The Postal Service has announced that it is undergoing unprecedented changes to its processing and transportation network. In fact, the Commission's lack of curiosity into these changes, which will entail tens of billions of dollars in capital investments, is disquieting. The Postal Service's request is silent on this topic, but extensive network changes may directly impact product costs and arguably warrant a reexamination of the current product and rate structure. As noted above, PostCom does not oppose the waiver, but fears that the incrementalism of the Postal Service's request postpones a needed reassessment of the Postal Service's flats product offerings in a revamped network.

Apart from future network changes, the Postal Service is rapidly dismantling the Flats Sequencing System (FSS). It is expected that within a year, the FSS will be completely decommissioned. PostCom welcomes this development but expects that the change in USPS operations will cause significant – and arguably positive – impacts to the unit costs of flats products. Again, the incremental, backward-looking approach incorporated into the Postal Service's waiver request, though it may correct the identified anomaly, will soon be overtaken by events.

3. Flats Issues More Generally

Mailers who use the Postal Service's flats products have been poorly served in recent years, having experienced consistently below-average service performance. Because of the Commission's ill-advised changes to rate regulations, many are now also burdened by semi-

annual rate increases that include an extra two percent rate authority, over and above supplemental rate authority that has produced a windfall for the Postal Service. In passing the Postal Service Reform Act of 2022, Congress singled out flats as needing additional scrutiny by the Commission, and PostCom looks forward to another report on the topic. The waiver sought by the Postal Service is supported by evidence and should result in improved pricing. PostCom grants that the issues identified in these comments are beyond the necessarily limited scope of a waiver request, but it urges the Commission to take them up nonetheless—in a separate proceeding if needed.

Respectfully submitted,

/s/ Matthew D. Field

Matthew D. Field
Ian D. Volner
VENABLE LLP
600 Massachusetts Ave., NW
Washington, DC 20001
(202) 344-8281
mfield@venable.com
idvolner@venable.com
Counsel for Association for Postal Commerce